

MINUTES

**UNIVERSITY OF WASHINGTON
BOARD OF REGENTS**

Finance and Asset Management Committee

**Thursday, May 9, 2019
Petersen Room, Allen Library**

Call to Order and Attendance

Committee Chair Regent Benoiel called the meeting to order at 8:30 a.m.

Present: Regents Benoiel (Chair), Ayer, Harrell, Jaech, MacPhee, Rice, Riojas Tamaki, Zeeck, Zhou; President Cauce, Provost Richards, the Secretary.

Approval of Minutes

Regent Benoiel announced that, hearing no objections, the minutes from the Committee meeting on February 14, 2019, were approved, as distributed.

Actions Taken Under Delegated Authority (Information only) (Item No. F-1)

Approve Amended Statements of Investment Objectives and Policy for the Invested Funds, Consolidated Endowment Fund, and Deferred and Other Gift Assets (Action) (Item No. F-2)

Quarterly Investment Performance Report -- Quarter Ended December 31, 2018 (Information only) (Item No. F-3)

Semi-Annual Internal Lending Program Report and Semi-Annual Borrower's Report for Housing & Food Services (Information only) (Item No. F-4)

Approve Chapter 478-116 WAC: Seattle Parking and Traffic Rules (Action) (Item No. F-5)

Approve Chapter 478-117 WAC: Bothell Parking and Traffic Rules (Action) (Item No. F-6)

Approve Chapter 478-118 WAC: Tacoma Parking and Traffic Rules (Action) (Item No. F-7)

Regent Benoiel announced that, hearing no objections, Items F-1, F-2, F-3, F-4, F-5, F-6, and F-7, would appear on the full Board's consent agenda, as distributed.

See Attachments F-1, F-2, F-3, F-4, F-5, F-6, and F-7.

Finance, Budget, and Capital Report (Information) (Item No. F-8)

Brian McCartan, Vice President, Finance, presented interim third-quarter results for Fiscal Year (FY) 2019. Revenues are increasing at 5.4 percent, faster than expenses at 5 percent. The deficit is therefore narrowing. Endowment returns are declining. Annual financial results will be presented to the Board in November. He will return in June to offer an overview of the Finance Transformation project, and in July to request Stage 1 approval of the project.

Lou Cariello, Vice President, Facilities, reported that there are ten active capital projects, four under construction and six in planning and design. Expectations for the Foster School Expansion are being aligned with budget in the design phase. Construction on North Campus Housing Phase IV(b) is beginning, with occupancy planned for Fall Quarter 2020. The Population Health Facility is expected to be substantially complete within one year. The new Burke Museum remains scheduled to open this fall.

Asked why the Northwest Hospital (NWH) Childbirth Center (CBC) is indicating red, Mr. Cariello replied that questions of scope and budget have delayed completion, including permitting negotiations with the City of Seattle.

Asked about safety around construction cranes, considering the recent collapse of a crane at a South Lake Union construction site, Steve Tatge, Executive Director, Major Projects, stated that heightened precautions will be taken when the Population Health Facility crane is dismantled.

Asked about business equity, Mr. Cariello replied that he will no longer report on this monthly, but quarterly and, as requested, to the Board's Diversity, Equity, and Inclusion Advisory Committee.

Sarah N. Hall, Vice Provost, Planning & Budgeting, did not report, because she will be presenting the operating budget to the full Board.

See Attachment F-8.

Audit Advisory Committee Update (Information) (Item No. F-9)

Regent Zeeck, Chair of the Audit Advisory Committee, reported that the Audit Advisory Committee met yesterday. Four items were discussed: third-quarter financial results, recent accounting changes concerning recurring retirement obligations, where responsibility for auditing UW Medicine lies, and cybersecurity. The committee will offer the Board its recommendations on appropriate responsibilities for itself and for UW Medicine's internal finance and audit committee. The committee is focusing on cybersecurity because data is as much a resource for the UW as its finances. The committee next meets in September.

See Attachment F-9.

UWINCO Board Update and Investment Program Annual Review (Information) (Item No. F-10)

Regent Ayer, Vice Chair of the UWINCO Board, reported that the UWINCO Board met on April 4. The board discussed the difficult fourth quarter, balanced by strong long-term returns. A guest speaker from Himalaya Capital spoke about long-term investment opportunities in Asia, providing background to the board's discussion of emerging markets-focused and, specifically, China-focused strategies.

Keith Ferguson, Chief Investment Officer, UWINCO, reminded Regents that the Board of Regents approves Consolidated Endowment Fund (CEF) investment policy, which includes the policy allocation ranges. For FY20, UWINCO will propose an increase in the allocation to emerging markets from 17 percent to 22 percent. Mr. Ferguson expects considerable volatility in coming years. He noted that the UW's spending hurdle will fall from 7 percent to 6.5 percent in consequence of the Board's reduction of the endowment spending rate. With long-term projected returns declining, appropriate responses are i) cutting spending, which the Board has done; ii) reducing fees, which the Board has done; and iii) seeking to increase returns, which UWINCO proposes through a tilt to private equity and to emerging markets. Of the latter, Mr. Ferguson is most interested in China and, to a degree, India. China produces 15 percent of global gross domestic product and comprises 3 percent of the global equities benchmark, but will eventually comprise approximately 16 percent. Given China's growth trajectory and UWINCO's regional investment experience,

the UWINCO Board and UWINCO recommend overweighting the portfolio to emerging markets, particularly China.

Asked whether China is an orderly, well-policed market, Mr. Ferguson replied that there is more government intervention than in the United States, but that regulatory agencies for public markets are increasingly professionalized. Private markets remain more challenging.

Asked about political and commercial uncertainty concerning China, Mr. Ferguson stated that he remains open-minded about potential developments in China. He expects that the United States and China must come to an understanding over the next decade. This is in the interest of both parties. He still has confidence in investment opportunities in China, given that i) its equity markets are cheaper, ii) its companies are growing faster, and iii) entrepreneurship continues to increase substantially.

See Attachment F–10.

Comparative Investment Performance and Asset Allocation (Information) (Item No. F–11)

Mr. Ferguson introduced Max Senter from Cambridge Associates, who provides an external perspective on UWINCO's activity. Mr. Senter explained that, before the UWINCO Board was formed in 2001, he advised the Regents directly on portfolio decisions. He has subsequently supported the University's in-house investment office. This year, Mr. Senter measured the UW's CEF investments in three ways: i) against policy and passive benchmarks, ii) against the performance of other universities' investments, and iii) with respect to other universities' allocations by sector and by region. UWINCO has exceeded its performance benchmarks. While the UW's policy asset allocation is on par with peers' asset allocations, the UW excels in implementation by choosing good managers. Many peers have greater exposure to China or are planning to increase their exposure, consistent with UWINCO's plans.

Asked his opinion of the UWINCO Board's operations, and how to maintain this level of performance, Regent Ayer responded that the board is the model of a high-functioning advisory board. This group of experts represents various investment strategies and provides an appropriate amount of oversight. Regent Zeeck thanked Mr. Ferguson and his team for providing distributions of \$1.5 billion over the past decade, a phenomenal results for the people of Washington. Mr. Ferguson averred that his goal is to maintain and to increase distributions to the University.

See Attachment F–11.

Quarterly Advisory Committee on Real Estate Update (Information) (Item No. F–12)

Todd Timberlake, Chief Real Estate Officer, reported that the Advisory Committee on Real Estate (ACRE) will soon begin meeting elsewhere than downtown, to reacquaint committee members with the University's other properties. At its last meeting, ACRE visited the Rainier Square construction site, had its annual status check with Wright Runstad, and received an update on Metropolitan Tract leasing status and retail strategy from Unico Properties. Occupancy is at 97 percent. ACRE also discussed the proposed University District Station Building. Bids for the air rights over the station were due yesterday. Mr. Timberlake will return to request Stage 2 approval for the project after evaluating bids. The last item of discussion was development in the West Campus area.

Asked about the Northwest Hospital campus, Mr. Timberlake responded that the matter has not yet come before ACRE.

Asked how to sustain such impressive performance, Regent Benoiel, Chair of ACRE, agrees with Regent Ayer's remarks regarding the UWINCO Board: the quality of ACRE's recommendations reflects the quality of its personnel and of its staff support. He noted that ACRE still has capacity for one more Regent member.

See Attachment F-12.

Fairmont Olympic Hotel – Approve Ground Lease Extension and Delegate Execution of Documents
(Action) (Item No. F-13)

Mr. Timberlake stated that the Olympic Hotel has been a key site on the Metropolitan Tract, almost since the beginning of its management. The proposed lease extension from 2040 to 2075 secures reinvestment in the hotel by removing the disincentive of a relatively short lease term remaining to the current tenant. The tenant has already invested \$30 million in the hotel's rooms and within one to two years will invest \$25 million in its public areas. Required capital improvements are scheduled by the lease's terms. The current rate structure is maintained.

Regent Benoiel said that this is a career capstone deal for a chief real estate officer, congratulated Mr. Timberlake, and asked for a motion.

Regent Rice moved, Regent Ayer seconded, and the Finance and Asset Management Committee approved the ground lease extension for the Fairmont Olympic Hotel and delegated authority to the President to execute the required documents, as presented.

See Attachment F-13.

Approve UW Seattle Transportation Fee Revisions (Action) (Item No. F-14)

Mr. Cariello introduced the item by thanking his team and colleagues in the Office of Planning & Budgeting, on the University Transportation Committee (UTC), on the Faculty Committee on University Facilities and Services (FCUFS), and at UW Medicine. The administration last proposed a rate increase to the Board in 2015, when it proposed an increase of 6.4 percent. Since then, Transportation Services has seen substantial cost increases on account of increased municipal parking taxes, increased costs for compliance with the Americans with Disabilities Act, and rising maintenance costs. The single-occupancy vehicle (SOV) rate is presently below 19 percent. Because the Campus Master Plan set a SOV rate target of 12 percent, Transportation Services must plan for a decreasing revenue stream from parking at current rates. Its FY20 operating deficit would be \$2 million without proposed parking rate increases. In setting rates, the administration considered increasing both U-PASS and parking rates, but, in response to community feedback, has chosen to recommend increasing parking fees by 12 percent.

Sydney Pearce, Vice President, Internal Affairs, GPSS, stated that the proposed rate revisions have been discussed with the UTC and the U-PASS advisory board. They align with a broadly shared goal of prioritizing environmental sustainability. Students understand that student U-PASS rates must increase as the regional light-rail system expands and feel that their voices have been heard.

Asked whether the proposed fee revisions will eliminate Transportation Services' operating deficit, Mr. Cariello replied that the deficit will fall to \$700,000 as a result. 98 percent of Transportation Services' revenue pays transit costs, so there is healthy pressure on its budget.

Asked what percentage of parking spaces are used by visitors, Barbara Wingerson, Associate Vice President, Facilities, stated that approximately 50 percent of spaces are used by visitors. She observed, however, that many visitors are actually students or patients without regular parking passes. For this reason, the administration chose to increase rates in a balanced fashion across categories of parking user.

Regent Harrell moved, Regent Ayer seconded, and the Finance and Asset Management Committee approved UW Seattle transportation fee revisions, as corrected. In the schedule of student parking fees on Attachment 1 to the item, “quarterly” was corrected to “monthly” for the student resident rates.

See Attachment F–14.

Approve UW Bothell 2020-2022 Parking and U-PASS Rates (Action) (Item No. F–15)

Ruth Johnston, Vice Chancellor, Planning and Administration, UW Bothell, introduced the item, noting that everything around facilities and transportation at UW Bothell is planned jointly with Cascadia College.

Martin Arroyo, Director, UW Bothell/Cascadia Transportation Services, stated that UW Bothell/Cascadia Transportation Services is self-funded by parking and transportation fees. Both institutions aim to be good neighbors and to make their shared campus accessible to students. Cascadia College has taken out a \$30 million-dollar loan to build a new 600-space parking structure. For this reason, parking rates must be increased. Mr. Arroyo has consulted with ASUW Bothell, held parking forums, and administered a parking survey. ASUW Bothell, the Cascadia College student government, and the Transportation Advisory Committee have endorsed the proposed fees.

Asked to specify the percentage by which fees would increase, Mr. Arroyo replied that they will increase by approximately 5 percent per year. Asked further for local comparisons, Mr. Arroyo stated that there are none, because no other businesses or institutions in Bothell charge for parking, although there are moves to begin charging.

Asked whether the UW Bothell/Cascadia College Transportation Services budget is balanced, Mr. Arroyo replied that it is, although it is using reserves to pay a \$1.94 million mortgage over the next four to five years. It will return to break-even in five years.

Meagan Walker, Vice President, College Relations and Advancement, Cascadia College, stated that Cascadia is pleased to be able to fund the construction of the new parking structure to alleviate what amounts to a parking crisis at a largely commuter campus.

Asked what the SOV rate is at UW Bothell, Mr. Arroyo responded that it is approximately 60 percent. However, as college students begin to drive less, the campus has reduced its expected SOV rate. Ms. Walker pointed out that many faculty members at Cascadia College are associates who teach at multiple institutions and must therefore drive between those institutions.

Asked whether, and how frequently, students park in the surrounding neighborhoods, Mr. Arroyo stated that he has no firm basis on which to answer the question. Ms. Walker believes the number to be small. Expected parking restrictions should reduce this proportion in the future.

Ms. Johnston noted that the proposed rates must also be approved by the trustees of Cascadia College.

Regent Harrell moved, Regent Rice seconded, and the Finance and Asset Management Committee approved UW Bothell parking and U-PASS rates, as presented.

See Attachment F–15.

Approve UW Tacoma 2020-2024 Parking Rates (Action) (Item No. F-16)

Tye Minckler, Vice Chancellor, Finance and Administration, UW Tacoma, explained that Tacoma parking rates are substantially below local market rates. There have been no adjustments for ten years. Proposed rates therefore help UW Tacoma to achieve goals of financial and environmental sustainability.

Asked whether UW Tacoma plans to add further parking spaces, Mr. Minckler replied that it does. Asked further whether UW Tacoma's transportation services is self-sustaining, Mr. Minckler replied that it is, depending on how one accounts for institutional overhead costs. Asked further what the optimal interval for approving rate increases might be, Mr. Minckler said that he believes the interval to be approximately five years.

Asked about limited-duration parking spaces surrounding the Tacoma campus, Mr. Minckler replied that there are ninety-minute spaces along the Pacific Avenue commercial corridor. UW Tacoma is attempting to have other city parking spaces increased from a ninety-minute to a three-hour duration so that students might use them when attending classes or studying.

Regent Tamaki moved, Regent Ayer seconded, and the Finance and Asset Management Committee approved UW Tacoma 2020-2024 parking rates, as presented.

See Attachment F-16.

Adjourn

Hearing no other business to come before the Committee, Regent Benoliel adjourned the Finance and Asset Management Committee meeting at 10:00 a.m.

Approved at the meeting of the Committee on June 13, 2019.